



333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

MTF Bulletin

July 29, 2024

FY 2025 Budget Veto Summary

On July 29th, Governor Healey signed the Fiscal Year (FY) 2025 budget; sending back \$316.8 million in gross spending vetoes (\$248 million net).¹ Inclusive of the Governor’s cuts, line-item spending in the FY 2025 budget would total \$57.78 billion², a \$1.7 billion (3.1 percent) increase over the FY 2024 GAA.

She also returned three policy sections with amendment, but did not veto any sections in full.

The Governor’s spending vetoes aim to improve the structural balance of the budget and the Healey administration’s ability to respond to unexpected downturns or spending needs throughout the fiscal year. Given the significant fluctuation of revenue trends in FY 2024 and the uncertainties that exist regarding FY 2025 revenue collections, the administration’s preservation of this flexibility is reasonable.

FY 2025 Budget Action Summary

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Line-Items Reduced	136	7	4	35	59
\$ Reduction	\$159	\$8	\$0.48	\$276 (gross)	\$317 (gross) / \$248 (net)
Sections Vetoes	0	2	0	1	0
Sections Amended	17	25	41	8	3

\$ in millions

This bulletin describes the spending and revenue exposures that contributed to the Governor’s budget actions and summarizes the spending and policy vetoes sent back to the Legislature for consideration.

Veto overrides require a two-thirds majority vote in both chambers and the formal legislative session ends on July 31st. House and Senate lawmakers have two days to respond to the Governor’s actions and restore proposed spending cuts to the FY 2025 budget.

FY 2025 Budget Resources

¹ Proposed spending reductions to MassHealth, the Department of Transitional Assistance, and Services for Children and Families are offset by approximately \$68 million in federal reimbursement, bringing the net total of vetoes to \$248 million.

² MTF includes in its total line-item spending figure the \$63 million appropriation held in the Commonwealth Transportation Trust Fund for debt service costs, related to the \$250 million diversion of surtax resources directly to the fund.

As MTF recently [reported](#), the FY 2025 conference budget sent to Governor Healey’s desk was built on the consensus revenue foundation of \$40.2 billion and it maintained the \$1.3 billion surtax spending cap agreed to by administration and legislative budget leaders in January.

Additionally, the conference report enacted by the Legislature reflects \$1.2 billion in new one-time and ongoing revenue initiatives; including proposals to create an online lottery and allow the use of debit cards for lottery sales. In most cases, the conference budget reflects a higher revenue assumption for these initiatives than what was originally included in the Governor’s budget. For example, it assumes that an online lottery will generate \$100 million in new revenue for the state; a \$25 million increase over the revenue assumption reflected in the Governor’s budget.

Uncertainty regarding the actual amount of revenue that may be generated by new revenue proposals was likely a factor that led to spending vetoes.

Revenue & Resource Assumptions in the FY 2025 Budget

Proposal	One-Time v. Ongoing	FY 2025 - Governor	FY 2025 - House	FY 2025 - Senate	FY 2025 - Conference
Online Lottery	Ongoing	\$75	\$100	\$0	\$100
Tax Fairness & Modernization	Ongoing	\$60	\$60	\$60	\$60
Debit Card Lottery	Ongoing	\$0	\$0	\$25	\$25
Gaming Fund Redistribution	Ongoing	\$0	\$0	\$100	\$0
Subtotal Ongoing		\$135	\$160	\$185	\$185
Tax Amnesty Program	One-Time	\$75	\$75	\$100	\$100
High-Quality EEC Trust Fund	One-Time	\$265	\$200	\$265	\$200
SOA Investment Fund	One-Time	\$300	\$300	\$225	\$200
Above Threshold Capital Gains	One-Time	\$375	\$375	\$375	\$375
Gaming Fund Redistribution	One-Time	\$100	\$80	\$0	\$100
Subtotal One-Time		\$1,115	\$1,030	\$965	\$975
Total One-Time & Ongoing Revenue Initiatives		\$1,250	\$1,190	\$1,150	\$1,160

\$ in millions

Additionally, the FY 2025 conference budget includes another potential revenue exposure related to federal reimbursement assumptions tied to the state’s Medicaid program, i.e. MassHealth spending. The federal match rate for the majority of MassHealth spending is 50 percent; meaning, that for every \$2 that the state spends on MassHealth, we collect \$1 dollar in reimbursement from the federal government.

The FY 2025 conference report includes a total of \$20.3 billion for the MassHealth program, a decrease of \$60 million compared to the Governor’s budget. Despite this, the conference report also reflects a federal reimbursement revenue assumption that is approximately \$50 million greater than the administration’s proposal. This disconnect between MassHealth spending and revenue assumptions creates a potential shortfall of resources used to support spending in FY 2025 and the balance of the budget.

FY 2025 Budget Spending

The FY 2025 budget enacted by the Legislature included \$58.1 billion in total line-item spending, including \$1.3 billion in surtax investments and \$682.2 million for a transfer to the Medical Assistance Trust Fund. This total represented a \$2 billion (3.6 percent) increase over the FY 2024 GAA, a \$25.7 million increase over the House budget, and a \$16.5 million increase over the Senate. More details on spending in the conference budget can be found [here](#).

FY 2025 Conference Budget Line-Item Spending

	FY 2024 GAA	FY 2025 Governor	FY 2025 House	FY 2025 Senate	FY 2025 Conference
Line-Item Spending	\$54,558.1	\$56,152.2	\$56,090.4	\$56,079.6	\$56,096.1
Surtax Spending	\$1,000.0	\$1,300.0	\$1,300.0	\$1,300.0	\$1,300.0
Medical Asst. Trust Fund	\$505.0	\$682.2	\$682.2	\$682.2	\$682.2
B.H. Outreach, Access, Support	\$0.0	\$0.0	\$0.0	\$20.0	\$20.0
Total Line-Item Spending	\$56,063.1	\$58,134.4	\$58,072.6	\$58,081.8	\$58,098.3
V. Conference Report	\$2,035.2	-\$36.1	\$25.7	\$16.5	

\$ in millions

However, despite increasing spending over the prior year by more than \$2 billion, a comparison between the conference report and the administration’s original FY 2025 proposal identifies a number of key accounts that appear underfunded compared to initial administration estimates, totaling nearly \$340 million.

FY 2025 Conference Report v. Governor’s Proposal

Category	FY 2025 Governor	FY 2025 Conference	Conf. v. Governor
MassHealth	\$17,704.4	\$17,582.9	-\$121.5
Public Safety	\$1,303.8	\$1,219.6	-\$84.2
Caseload	\$1,788.9	\$1,706.5	-\$82.5
Transportation	\$588.0	\$538.6	-\$49.4
Spending Total	\$21,385.2	\$21,047.6	-\$337.6

\$ in millions

The largest spending deficiencies in the conference report relate to MassHealth, public safety, caseload accounts, and transportation. For example, notable underfunded accounts in the FY 2025 budget include:

- \$345.6 million for inpatient facilities and community-based mental health services, a reduction of nearly \$40 million from the Governor’s budget;
- \$150.8 million for the administration of the Executive Office of Health and Human Services and MassHealth, \$17 million less than the funding level recommended by the administration;
- \$776.7 million for Department of Correction facilities operations, a cut of \$14 million compared to the Governor’s budget; and

- \$538.6 million for a transfer to the Massachusetts Transportation Trust Fund, a level \$50 million less than the Governor’s budget related to snow and ice removal.

In combination with the resource discrepancies identified above, an initial analysis by MTF identified up to \$450 million in potential spending and revenue exposures in the FY 2025 conference report.

MTF Estimated Spending & Revenue Exposures in FY 2025 Conference Budget

Category	FY 2025 Governor	FY 2025 Conference	Conf. v. Governor
Spending Total	\$21,385.2	\$21,047.6	-\$337.6
MassHealth	\$17,704.4	\$17,582.9	-\$121.5
Public Safety	\$1,303.8	\$1,219.6	-\$84.2
Caseload	\$1,788.9	\$1,706.5	-\$82.5
Transportation	\$588.0	\$538.6	-\$49.4
Revenue Total	\$75	\$125	-\$110
Online Lottery	\$75	\$100	-\$25
MassHealth	--	--	-\$60
Debit Card Lottery	0	25	-\$25
Estimated Spending & Revenue Exposures			-\$447.6

\$ in millions

This level of potential exposures, combined with continued uncertainties regarding tax revenue collection trends, undoubtedly contributes to the Healey administration’s decision to send back spending vetoes to the Legislature. However, this figure does not translate exactly to the amount of recommended cuts. Spending and revenue exposures may also be offset by expected savings throughout the fiscal year, like reversions. Reversions are appropriations that go unspent throughout the fiscal year and get returned to the General Fund. In a typical year these savings may exceed \$200 million.

If the spending and revenue exposures estimated above are offset with a \$200 million savings assumption, it is reasonable that the Healey administration would identify approximately \$250 million in net spending cuts.

Governor Healey’s Budget Actions

Spending Vetoes

Governor Healey vetoed \$316.8 million in gross spending (\$248 million net) from the FY 2025 budget across 59 separate line items.

The single largest veto cuts \$192.3 million in funding from the MassHealth Managed Care account. This one veto comprises more than 60 percent of the spending cuts proposed by the Governor, and given historic flexibility in MassHealth account spending, it should be viewed within the context of the total \$20 billion MassHealth funding level. The funding reduction reflects

a range of updated utilization projections, adjustments to the timing of rate increases, and new revenues. The net impact of this veto is \$125 million.

According to the filing documents for the Governor’s budget actions, many of the non-MassHealth related vetoes appear to affect line items for which alternative resources are available, including trust fund resources, funds previously appropriated from the Transitional Escrow Fund, or funding carried forward from FY 2024. Additionally, a number of items are adjusted to reflect updated utilization trends, historic spending levels, or the Governor’s original funding recommendation.

In the table below, spending vetoes are organized by category.

FY 2025 Spending Vetoes by Category

Category	Governor's Vetoes
Healthcare	-\$233.3
Education	-\$24.0
<i>Early Education</i>	-\$3.0
<i>K-12 Education</i>	-\$17.7
<i>Higher Education</i>	-\$3.3
Support Services	-\$19.7
Energy and Environment	-\$11.6
Other	-\$9.9
Economic Development	-\$8.2
Workforce	-\$8.1
Housing	-\$1.5
Public Safety	-\$0.6
Total Vetoes (gross)	-\$316.8

\$ in millions

The Governor proposes to eliminate funding entirely for 11 line-items, totaling \$14.3 million. Each individual program was funded at \$2.5 million or less, including Workforce Development Grants, Extended Learning Time Grants, Student Wellness Supports, Family Resource Centers, and the UMass Center at Springfield. As with other spending vetoes, the administration cuts funding levels based on the availability of other resources or to be consistent with the House 2 recommendation.

Other notable spending vetoes include:

- ***Bureau of Substance Addiction Services*** (\$18.2 million) – The Governor proposes to cut funding for substance addiction treatments and services by \$18.2 million, for a total funding level of \$194.4 million. This reduction is projected to be offset by other available resources, including: the Opioid Recovery and Remediation Trust Fund, the Substance Use Disorder Federal Reinvestment Trust Fund, and supplemental resources from the 2022 COVID Recovery and Economic Development bill.
- ***Adult Mental Health and Support Services*** (\$9.5 million) – The administration reduces funding for these support services by \$9.5 million, bringing the total funding level of

\$612.9 million. This cut will be offset by services soon to be covered under MassHealth, as well as alternative resources, including federal funds.

- ***Teacher Diversity Initiative*** (\$7.5 million) – The Governor cuts funding for the Teacher Diversity Initiative by \$7.5 million, which is expected to be entirely offset by funding carried forward from FY 2024. This program supports a scholarship program and a loan forgiveness program to encourage the recruitment and retention of racially, culturally, ethnically, and linguistically diverse educators.
- ***Supplemental Security Income*** (\$6.3 million) – The administration reduces funding for this program by \$6.3 million, to \$200.8 million. This lower funding level is consistent with historic spending trends and expected demands for the program.
- ***Group Insurance Premium and Plan Costs*** (\$6 million) – Governor Healey proposes to reduce funding for this account by \$6 million, consistent with historic spending levels and projected utilization. The administration does not anticipate this cut to impact rates or coverage.

The Governor avoided vetoes to local earmarks, local aid to cities and towns, and major priorities of the House and Senate. A full list of the administration’s spending vetoes can be found [here](#).

Policy Vetoes

Governor Healey largely left the 263 policy sections included in the conference report intact, returning only three sections with amendment and not vetoing any sections outright. Governor Healey’s proposed amendments:

- Limit the scope of a new “notice of eligibility” requirement included in section 116 of the conference report. Under the section, MassHealth would be required to notify any MassHealth or Medicare eligible person aged 55 or older of the options for enrolling in voluntary senior care programs, including Senior Care Options (SCO) and Program of All Inclusive Care for the Elderly (PACE). Under the Governor’s language, notification would be required when an individual is eligible for Medicare/MassHealth and inquires about long-term nursing care placements.
- Make \$63 million in annual supplemental MassHealth payments to Cambridge Health Alliance contingent upon the availability of federal funds and federal approvals for the payments. Governor Healey’s amendment combines sections 219 and 220 of the conference report into one section which requires the payments to be authorized for the next four years, but only if federal support contingencies are met.

Next Steps

The Healey administration sent back \$316.8 million in gross spending vetoes (\$248 million net) to the FY 2025 conference budget, the highest level of proposed budget cuts in at least five years. After accounting for these spending reductions, the FY 2025 budget would include \$57.78 billion in total spending, an increase of \$1.7 billion (3.1 percent) over the FY 2024 GAA.

FY 2025 Budget Spending, Post-Vetoes

	FY 2024 GAA	FY 2025 Conference	Spending Vetoes	FY 2025 Post-Vetoes	\$ v. FY 2024	% v. FY 2024
Line-Item Spending	\$54,558.1	\$56,096.1	-\$316.8	\$55,779.3	\$1,718.4	3.1%
Surtax Spending	\$1,000.0	\$1,300.0	\$0.0	\$1,300.0		
Medical Asst. Trust Fund	\$505.0	\$682.2	\$0.0	\$682.2		
B.H. Outreach, Access, Support	\$0.0	\$20.0	\$0.0	\$20.0		
Total Line-Item Spending	\$56,063.1	\$58,098.3	-\$316.8	\$57,781.5		

\$ in millions

Notably, if the Legislature maintains the proposed cuts, the final FY 2025 budget would spend less than the administration’s original recommendation by \$352 million. This speaks to the significant spending and revenue fluctuations that the state experienced throughout FY 2024, and how they may impact FY 2025. The decision to veto this amount of spending provides the Healey administration with some of the flexibility it requires to respond to unexpected cost increases or revenue downturns throughout the fiscal year.

As lawmakers consider responding to the Governor’s budget actions, they should remain mindful of the following factors:

- ***There remains downside revenue risk in FY 2025.*** Revenue trends in FY 2024 fluctuated significantly, with the state experiencing essentially zero percent revenue growth through March. While collections in April rebounded, the majority of those resources are related to the income surtax and remain unavailable to help balance the budget throughout the fiscal year. Limited non-surtax revenue growth in FY 2024 negatively impacts the state’s fiscal position heading into FY 2025.
- ***It makes sense to prioritize other available resources to ease pressure on the budget.*** The Governor’s spending vetoes primarily impact accounts that have access to alternative funding sources, including trust funds, supplemental appropriations, and federal funds. Prioritizing the use of these resources before providing additional state support.
- ***The budget must also reflect the likelihood of spending exposures not included in the GAA.*** Emergency shelters costs continue to outpace appropriations, while the fallout from the Steward Hospital situation could require additional state spending. Finalizing a GAA that is mindful of the need for unbudgeted spending is essential to maintaining the state’s strong fiscal position in FY 2025.

Under the joint rules, all formal business in the second-year of the legislative session must be completed by July 31, 2024, leaving House and Senate lawmakers with two days to respond to the Governor’s spending vetoes. Last year, the administration sent back \$276 million in gross spending vetoes to the Legislature (\$205 million net), of which the House and Senate overrode \$83 million, or approximately 30 percent.